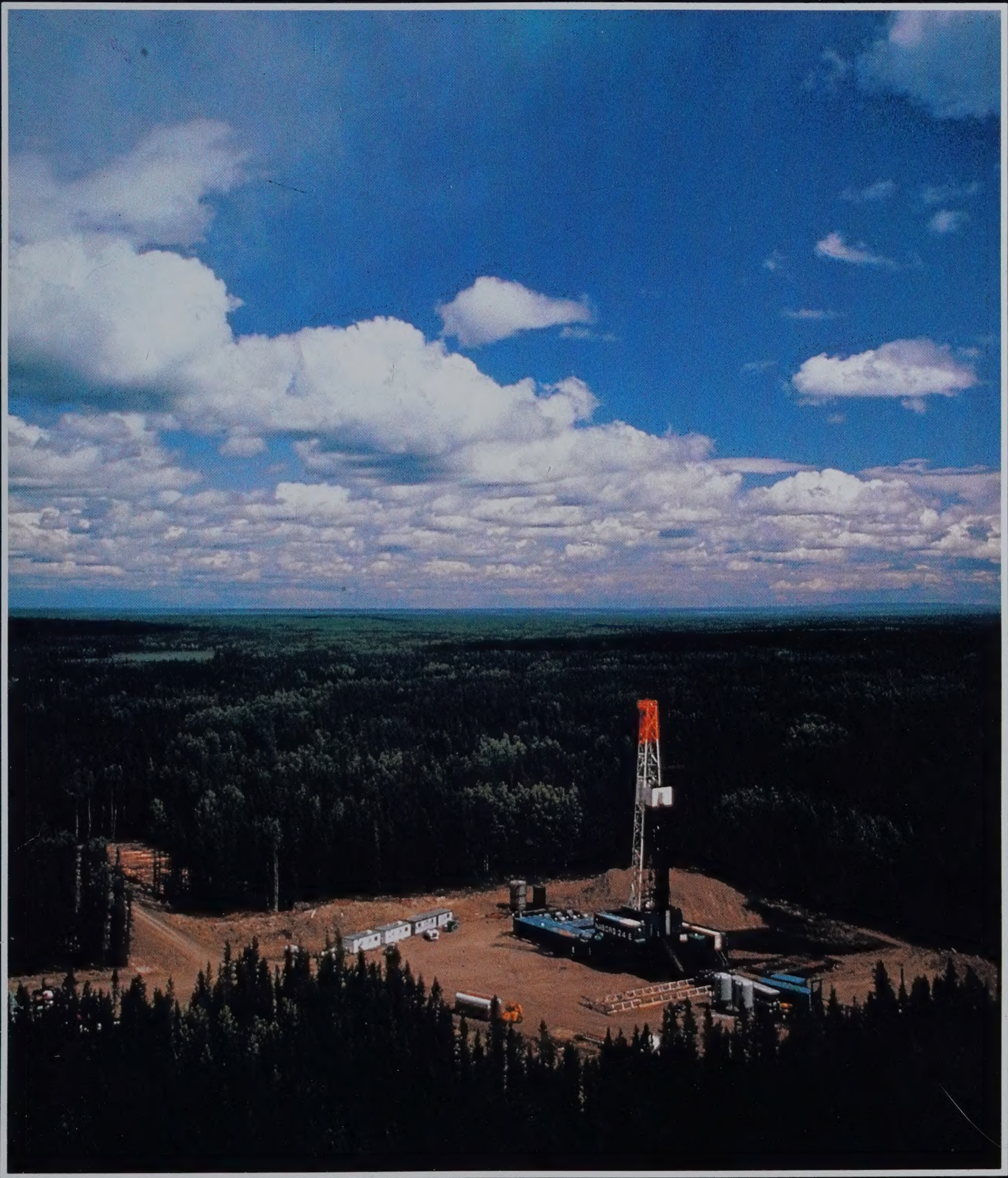
BLUESKY OIL & GAS LTD.

1981 ANNUAL REPORT



Bluesky Oil & Gas Ltd. is a resource development company engaged in the exploration for and development of crude oil and natural gas reserves and precious and base metal deposits. The Company has offices in Calgary, Houston and Denver and has producing properties in both Canada and the United States.

## Financial Highlights

| | |
|---|---|
| (12 month period ending April 30, 1981) | |
| Net Revenues | $ 11,073,622 |
| Cash Flow from Operations | $ 6,052,236 |
| Per Share* | 36.9¢ |
| Net Income before Extraordinary Items | $ 2,169,840 |
| Per Share* | 11.5¢ |
| Net Income | $ 7,618,855 |
| Per Share* | 48.6¢ |
| Total Assets (From Balance Sheet) | $187,865,724 |

## Operational Highlights

| | |
|---|---|
| Reserves | |
| Natural Gas (million cubic feet) | 131,800 |
| Oil (barrels) | 6,456,000 |
| Production | |
| Natural Gas (million cubic feet) | 1,787 |
| (million cubic feet per day) April 1981 | 6.17 |
| Oil (barrels) | 282,846 |
| (barrels per day) April 1981 | 827 |
| Drilling | |
| Total Wells | 297 |
| Gas Completions | 145 |
| Oil Completions | 95 |
| Success Ratio | 81% |
| Land | |
| Canada | |
| Gross | 10,688,410 |
| Net | 356,853 |
| United States | |
| Gross | 2,155,052 |
| Net | 123,009 |
| Total | |
| Gross | 12,843,462 |
| Net | 479,862 |

*Per share calculations exclude shares owned by the Company's wholly-owned subsidiary (See Note 6 in the Consolidated Financial Statements).

Cover: Drilling on Bluesky interest acreage in the Elmworth-Deep Basin region of western Alberta.

## BLUESKY OIL & GAS LTD.

### CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE SIX MONTHS ENDED OCTOBER 31, 1980

(unaudited)

| | 1980 | 1979 |
|---|---|---|
| Financial resources were provided by | | |
| Operations | | |
| Net income before extraordinary items | $ 1,286,133 | $ 401,852 |
| Add non-cash items | | |
| Depletion and depreciation | 1,156,870 | 484,032 |
| Accumulated depreciation and depletion on petroleum and natural gas properties sold | (7,320) | (45,823) |
| Deferred income tax | 1,003,293 | 74,872 |
| | 3,438,976 | 914,933 |
| Gain on sale of marketable securities | 11,004 | 27,178 |
| (Increase) in loans receivable | (6,841,692) | (4,365,089) |
| Increase in deferred income thereon | 6,841,692 | 4,186,168 |
| | — | (178,921) |
| Decrease in notes receivable | 105,650 | — |
| Proceeds on issue of shares | | |
| Common | 110,500 | 1,624,250 |
| Series A preferred — (1980 converted to common) | (110,500) | 6,729,000 |
| | — | 8,353,250 |
| Less — notes applicable to common shares | — | (1,484,250) |
| — issuance costs applicable to Series A | — | (581,206) |
| | — | 6,287,794 |
| | 3,555,630 | 7,050,984 |
| Financial resources were used for | | |
| Purchase of property and equipment | | |
| Petroleum and natural gas properties | 3,409,592 | 17,104 |
| Plant and equipment | 2,883,511 | 602,319 |
| Mining properties | 297,723 | — |
| | 6,590,826 | 619,423 |
| Increase in investment in common shares | — | 66,666 |
| Increase in deferred exchange loss | 124,237 | 102,706 |
| Reduction of gas production prepayment | 18,056 | 27,705 |
| Reduction of long-term debt | — | 187,800 |
| Preferred share dividends | 261,136 | 235,609 |
| | 6,994,255 | 1,239,909 |
| (Decrease) increase in working capital | (3,438,625) | 5,811,075 |
| Working capital (deficiency) beginning of period | (339,174) | 950,118 |
| Working capital (deficiency) end of period | $(3,777,799) | $6,761,193 |

## DIRECTORS

Barry W. Harrison,
*Calgary, Alberta*

Klaus Hebben
*Munich, West Germany*

Robert J. Leslie,
*Houston, Texas*

Abraham Okazaki,
*Vancouver, B.C.*

Robert Wisener,
*Calgary, Alberta*

## *OFFICERS*

Robert J. Leslie,
*President and Chief Executive Officer*

Ronald W. Springer,
*Vice President, Finance*

Arthur C. Eastly,
*Vice President, Production*

Wayne S. Tait,
*Vice President, Land*

Daryl H. Connolly,
*Vice President, Corporate Development*

Barry W. Harrison,
*Secretary*

BlueSky
Oil & Gas Ltd.


| | | |
|---|---|---|
| Bluesky Oil & Gas Ltd. | 333 - 5th Avenue S.W. #700 | Calgary, Alberta T2P 3B6 |
| Bluesky Oil & Gas Inc. | 1313 Tremont #6 | Denver, Colorado 80204 |
| Bluesky Oil & Gas Inc. | 1212 Main Street #335 | Houston, Texas 77002 |




# BlueSky Oil & Gas Ltd.

## INTERIM REPORT

SIX MONTHS ENDED OCTOBER 31, 1980

## Bluesky Oil & Gas Ltd.
## and Subsidiaries

To Our Shareholders:

Your Company has completed an exciting six months of growth and expanded potential. Production related revenue for the period was $3,917,485, a 364% increase over the same period last year. Cash flow from operations was $3,438,976 and net income was $1,292,335, representing 276% and 210% increases over comparable figures for the prior year. Earnings per share were 7.3¢, a 329% increase from the first six months of 1979. These gains are due in large part to growth in the U.S. operations which contributed 35% of the Company's revenues as compared to 3% in the prior year's period.

During this six month reporting period the Company participated in 78 wells resulting in 38 oil wells and 27 gas wells for a success ratio of 83%. Daily net oil production for the period averaged 732 barrels and daily net gas production was 3.4 million cubic feet, increases of 196% and 189% respectively over the comparable 1979 figures. Gas production will show important gains in the final six month period due to strong seasonal demand combined with increased contractual sales from the Elmworth field of west central Alberta. Oil production will increase during the same period as new wells in the Austin Chalk play in Texas are placed on stream.

In the United States, the Company has followed an aggressive land acquisition and drilling policy in the Austin Chalk play of south central Texas. Bluesky now has varying interests in approximately 63,000 acres on this play concentrated in Gonzales, Fayette, Bastrop, Lee, Burleson, Washington and Brazos counties. The Company has interests averaging 21% in 19 Austin Chalk oil wells which have varying production rates up to 328 barrels per day. Net production to the Company from these wells is approximately 365 barrels per day and the current oil price is $36.50 per barrel. Bluesky expects to have ten rigs operating on this play by the end of January and will participate in drilling over 30 additional wells in the next five months.

In Freestone County, Texas, Bluesky has participated in three gas wells that produce from the Cotton Valley formation at a depth of 14,300'. A fourth well is currently drilling and two additional wells are due to commence soon. The Cotton Valley has been assigned "Tight Reservoir" status and qualifies for a gas price of $5.00 per thousand cubic feet. The reservoir in this area is of excellent quality with flow rates from the three wells averaging 3.5 million cubic feet of gas per day. Bluesky and its investing partners have an average 11% interest in 9,100 acres on this play.

In Alberta, the Company has completed an 8,100' well at Garrington, 90 miles northwest of Calgary. The Bluesky et al 11-24 well tested 2.9 million cubic feet of gas per day from 93 feet of net pay in the lower Cretaceous sand. Bluesky and its investing partners have a 37.5% interest in this well which has estimated recoverable gas reserves of 24 billion cubic feet. The Company has also completed two oil wells in the Utikuma field of north central Alberta. Bluesky has ten wells in this field producing 176 net barrels per day to the Company. A further four to six wells are planned for this area during the winter months.

In the Nechako Basin of south central British Columbia, Canadian Hunter Exploration Ltd. is currently drilling its initial test. Bluesky and its West German investing partners have a 4% interest in this well and 6.5 million surrounding acres that blanket the entire basin. The well, which will take three months to drill, is projected for 11,500' at an estimated cost of $5,000,000 to test a structure interpreted from geophysical evidence to be 15 miles long and five miles wide. The well is part of a five-year, $27.5 million exploratory commitment for the Nechako Basin by the Canadian Hunter-Bluesky group.

Bluesky and Canyon Resources Corporation have commenced geological and geophysical evaluation of their 25,000 acres of mineral claims located between the Leadville and Gilman silver-mining districts of Colorado. Initial interpretations have revealed several potentially significant geophysical anomalies underlying the acreage. Detailed geophysical work and a possible core-hole drilling program will commence in the late spring when the area is clear of snow.

On October 16, 1980, prior to the introduction of the Canadian Federal Budget and the National Energy Program, Bluesky had announced its intention to concentrate its oil and gas exploration activities in the United States. This was in recognition of the considerably higher product prices and immediate market for gas in that country. The negative economic impact on the Canadian oil industry resulting from the budget proposals has served to exacerbate existing industry problems created by short-sighted federal export restrictions and pricing policies. Although the incentive for Bluesky to dedicate new exploration funds in Canada was further reduced as a result of the proposed legislation, the corresponding increase in the Company's U.S. exploration budget will provide for more rapid corporate growth than was previously anticipated. It should be noted that none of the Company's productive or undeveloped acreage in Canada is federally owned, and therefore the Company's production and reserves are unaffected by the 25% federal back-in provision suggested in the budget.

As a result of the reduced incentive in Canada, Canadian Hunter Exploration Ltd. recently announced a major redirection to the U.S. of exploratory funds estimated at $100 million. This is particularly significant to Bluesky, as the Company, in conjunction with eee Petroleum of West Germany, has a 10% working interest in all of Canadian Hunter's exploration activities in the United States.

In the second half of this fiscal year, Bluesky and its investing partners will participate in approximately 120 wells with budgeted drilling expenditures exceeding $35,000,000. Approximately 70% of the budget will be expended on U.S. operations. The securities of the Company will be listed on the Toronto Stock Exchange on December 16, 1980 and an over-the-counter listing through the NASDAQ system in the United States is anticipated early in the new year. Bluesky's expanding drilling budget, aggressive exploration philosophy and talented staff are the keys to rapid growth during the remainder of this fiscal year and the years ahead.

On Behalf Of The Board of Directors

Robert J. Leslie
President

December 5, 1980

## BLUESKY OIL & GAS LTD.
### CONSOLIDATED STATEMENT OF EARNINGS
### FOR THE SIX MONTHS ENDED OCTOBER 31, 1980
(unaudited)

| | 1980 | 1979 |
|---|---|---|
| Revenue | | |
| Geological, geophysical and drilling services | **$12,302,307** | $13,979,558 |
| Sale of petroleum and natural gas properties | **1,427,669** | 4,832,411 |
| Production derived income, net of royalties | **3,917,485** | 845,182 |
| Management fees | **680,681** | 345,268 |
| Other income | **563,364** | 219,694 |
| | **18,891,506** | 20,222,113 |
| Cost of Sales | | |
| Geological, geophysical and drilling services | **12,401,062** | 13,393,305 |
| Petroleum and natural gas properties | **1,396,388** | 4,856,553 |
| | **13,797,450** | 18,249,858 |
| | **5,094,056** | 1,972,255 |
| Expenses | | |
| Production | **542,495** | 149,127 |
| General and administrative | **658,252** | 265,659 |
| Interest | **251,621** | 219,067 |
| Dry holes and abandonments | **(1,092)** | 63,582 |
| Lease carrying costs of exploratory properties | **167,034** | 115,754 |
| Depletion and depreciation | **1,156,870** | 484,032 |
| | **2,775,180** | 1,297,221 |
| Net income before extraordinary items and income taxes | **2,318,876** | 675,034 |
| Income tax provision | **1,032,743** | 273,182 |
| Net income before extraordinary items | **1,286,133** | 401,852 |
| Extraordinary items | | |
| Gain on sale of marketable securities | **11,002** | 27,178 |
| Less income tax provision thereon | **4,800** | 12,306 |
| | **6,202** | 14,872 |
| Net income | **$ 1,292,335** | $ 416,724 |
| Earnings per share (Note 1) | | |
| Before extraordinary income | **7.2¢** | 1.5¢ |
| Net income | **7.3¢** | 1.7¢ |
| Cash flow from operation | **22.1¢** | 6.3¢ |

**Note 1**

Earnings per share calculations exclude 3,524,800 common shares owned by Company's wholly-owned subsidiary.

**Note 2**

Subsequent to October 31, 1980 the Company realized an extraordinary gain of $1,397,600 net of income tax, on the sale of marketable securities.

## DIRECTORS

Barry W. Harrison,
*Calgary, Alberta*

Klaus Hebben
*Munich, West Germany*

Robert J. Leslie,
*Houston, Texas*

Abraham Okazaki,
*Vancouver, B.C.*

Robert Wisener,
*Calgary, Alberta*

## *OFFICERS*

Robert J. Leslie,
*President and*
*Chief Executive Officer*

Ronald W. Springer,
*Vice President, Finance*

Arthur C. Eastly,
*Vice President, Production*

Wayne S. Tait,
*Vice President, Land*

Daryl H. Connolly,
*Vice President,*
*Corporate Development*

Barry W. Harrison,
*Secretary*

BlueSky
Oil & Gas Ltd.


| | | |
|---|---|---|
| Bluesky Oil & Gas Ltd. | 333 - 5th Avenue S.W. #700 | Calgary, Alberta T2P 3B6 |
| Bluesky Oil & Gas Inc. | 1313 Tremont #6 | Denver, Colorado 80204 |
| Bluesky Oil & Gas Inc. | 1212 Main Street #335 | Houston, Texas 77002 |

From left to right: Arthur C. Eastly, Vice President, Production; Daryl H. Connolly, Vice President, Corporate Development; Ronald W. Springer, Vice President, Finance; Wayne S. Tait, Vice President, Land.

# Letter to the Shareholders

On behalf of the Board of Directors of Bluesky Oil & Gas Ltd., it is a pleasure to present to our stockholders the annual report for the fiscal year ended April 30, 1981. The year was marked by significant financial growth, expansion of the Company's reserve base, consolidation of our position in the United States and positive progress in Canada despite the negative impact of the federal government's National Energy Policy.

Net revenues for the year reached $11,073,622, an increase of 73% over net revenues for the previous year. Production related revenue for the 12-month period was $8,021,135 and cash flow from operations was $6,052,236, representing 134% and 43% increases over comparable figures for the prior year. Operating income for the year rose 35% to $2,169,840 or 11.5¢ per share. Net income including a $5,449,015 securities gain was $7,618,855, a 232% increase over last year and earnings per share were 48.6¢, up 235% from the previous 12 months.

Bluesky's fiscal 1981 exploration and development expenditures for drilling, acreage acquisition and seismic evaluation, including partnership drilling funds, were $50,023,062. During the year the Company participated in 297 wells resulting in 95 oil wells and 145 gas wells for an overall success ratio of 81%. Net Company production for the year was 1,787 million cubic feet of gas and 282,846 barrels of oil. Bluesky's total natural gas and oil reserves at the end of the reporting period were 131.8 billion cubic feet of gas and 6,456,000 barrels of oil. The Company's future net income from its oil and gas reserves, using escalated prices and costs, was $980,210,000, a 54% increase over last year. The present value of this estimated future net income, discounted at 15% per year, increased 39% from $142,200,000 at the end of fiscal 1980 to $197,286,000 at the end of fiscal 1981. At April 30, 1981, Bluesky held the oil and gas rights to 12,843,462 gross acres and 479,862 net acres. Of this total Company acreage, 10,688,410 gross acres and 356,853 net acres are in Canada, while 2,155,052 gross acres and 123,009 net acres are in the United States.

The Company has continued an aggressive land acquisition and drilling policy in the United States in response to favorable oil and natural gas prices, generous production allowables and immediate access to markets. During 1981 Bluesky participated in 99 wells in the U.S. resulting in 53 oil wells and 16 gas wells for a success ratio of 70%. The Austin Chalk play of southcentral Texas remained the focus of the Company's U.S. drilling activities during the year. Bluesky participated for various interests in 46 wells on the play and presently holds 72,237 gross acres in 12 counties extending 200 miles from Wilson County in the southwest to Grimes County in the northeast. During fiscal 1982 the Company intends to participate in the drilling of at least 25 wells on this trend. Bluesky was also active outside of Texas and made oil discoveries in Grant County, Oklahoma; Banner and Kimball Counties, Nebraska and Weston County, Wyoming. Follow-up development drilling to each of these discoveries is planned for fiscal 1982.

Bluesky is participating in a number of joint ventures in the United States with accomplished industry partners to supplement the Company's own exploration efforts. Of particular importance is the joint venture with American Hunter Exploration, Ltd. underwhich Bluesky and its investing partners are participating for a 10% interest in American Hunter's activities in the U.S. American Hunter holds approximately 1,600,000 gross acres in both the frontier and traditional exploration regions of the United States. Evaluation of a number of prospects with large potential reserves is scheduled in the next few months as part of an aggressive drilling program planned by American Hunter.

In the Appalachian region of the United States, Bluesky has a 20% participation in an acreage acquisition and drilling program joint venture operated by Bowman Development Ltd. The joint venture has scheduled the drilling of a minimum of ten wells in the coming year as an initial evaluation of a portion of the 113,728 acres acquired to date along producing trends in New York, Pennsylvania and West Virginia. Additionally the Company has participated in an acreage acquisition and seismic evaluation joint venture with Coho Resources Inc. through which over 187,000 acres have been acquired in the Michigan Basin and potential areas of the Rocky Mountain states and Texas.

In Canada Bluesky decreased its level

of drilling activity during the latter part of fiscal 1981 in response to reduced economic incentives resulting from the National Energy Program. However, in anticipation of a satisfactory resolution of this problem, the Company has encouraged its exploration staff to continue to initiate new prospects and enlarge the Company's acreage position. Bluesky participated in 198 wells in Canada in fiscal 1981, resulting in 129 gas wells and 42 oil wells, for a success ratio of 86%. Significant oil wells were drilled by the Company at Utikuma and Winfield in Alberta, while important gas wells were drilled at Sikanni-Trutch in British Columbia and at Garrington and Bonnie Glen in Alberta.

As a result of contract negotiations, Bluesky's net production from the Elmworth and Wapiti contract areas of the Deep Basin of western Alberta increased substantially. The former rate of slightly less than 1 million cubic feet per day was increased to 2.1 million cubic feet per day on April 30, 1981, and has now reached approximately 4 million cubic feet per day. This rate will continue to increase in the future with the recognition of additional reserves. The Company presently receives $2.63 per thousand cubic feet for this gas. Bluesky's recognized net gas reserves in the Deep Basin, including the two contract areas, is now 58.6 billion cubic feet, a 117% increase from last year.

Bluesky's mineral exploration joint venture with Canyon Resources Corporation of Denver, Colorado is providing an exciting new dimension to the Company. Canyon Resources' full time staff of eight experienced mineral explorationists is working exclusively under the joint venture agreement and is coordinating its work with Bluesky's own mineral exploration staff. The venture is presently conducting active exploration on 11 properties in five western states. Exploration of the 34,750 acre claim block located between the Leadville and Gilman silver-lead-zinc-gold mining districts of Colorado is now in full swing. Detailed geophysical work is in progress to define the anomalies identified during last season's reconnaissance exploration program, while reconnaissance work is continuing on the unexplored portion of the block.

In the Val D'Or gold mining district of Quebec, Bluesky is the operator of a

detailed geophysical and core hole drilling program to evaluate a number of geophysical anomalies on 39,800 acres of mineral claims. The fifth hole in this program encountered 10 feet of gold mineralization at a depth of 40 feet. Gold values ranged up to 0.48 ounces per ton over the interval. As the mineralized zone may extend beneath an adjacent lake, follow-up drilling is scheduled for early winter.

It is a special pleasure to report the appointment of Ronald W. Springer to the Board of Directors of Bluesky. Mr. Springer joined the Company as Corporate Controller in 1976 and became Vice President of Finance in 1978. The Board will greatly benefit from his extensive financial expertise, broad industry experience and longstanding familiarity with the Company.

The accomplishments and growth of Bluesky during the past year are a direct result of the talent, dedication and enthusiasm of an outstanding staff. The opportunities arising from their efforts and through our joint venture participations, combined with the continuing support of our funding partners, will ensure Bluesky an exciting and rewarding future.

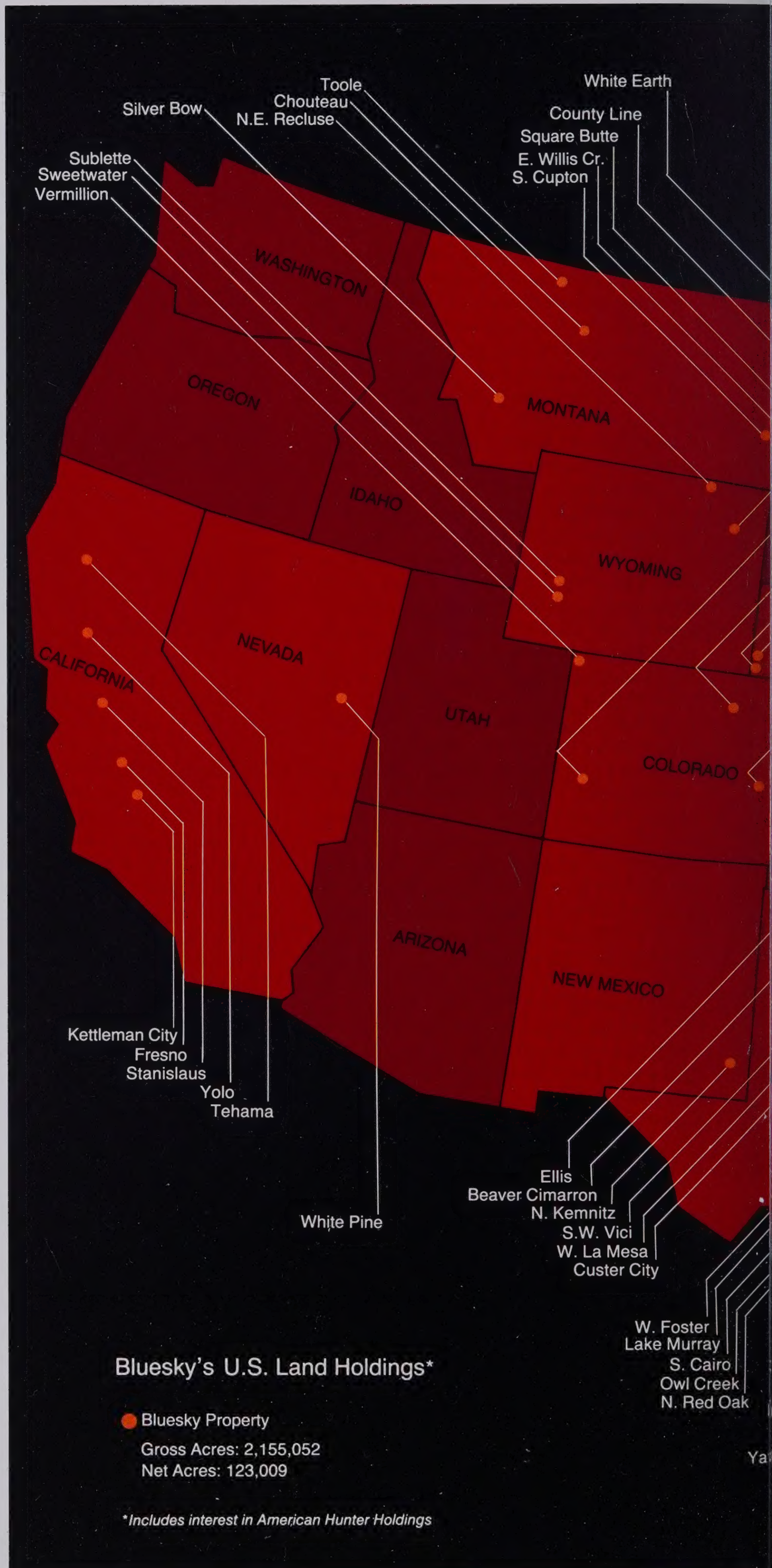
Robert J. Leslie
President
August 14, 1981

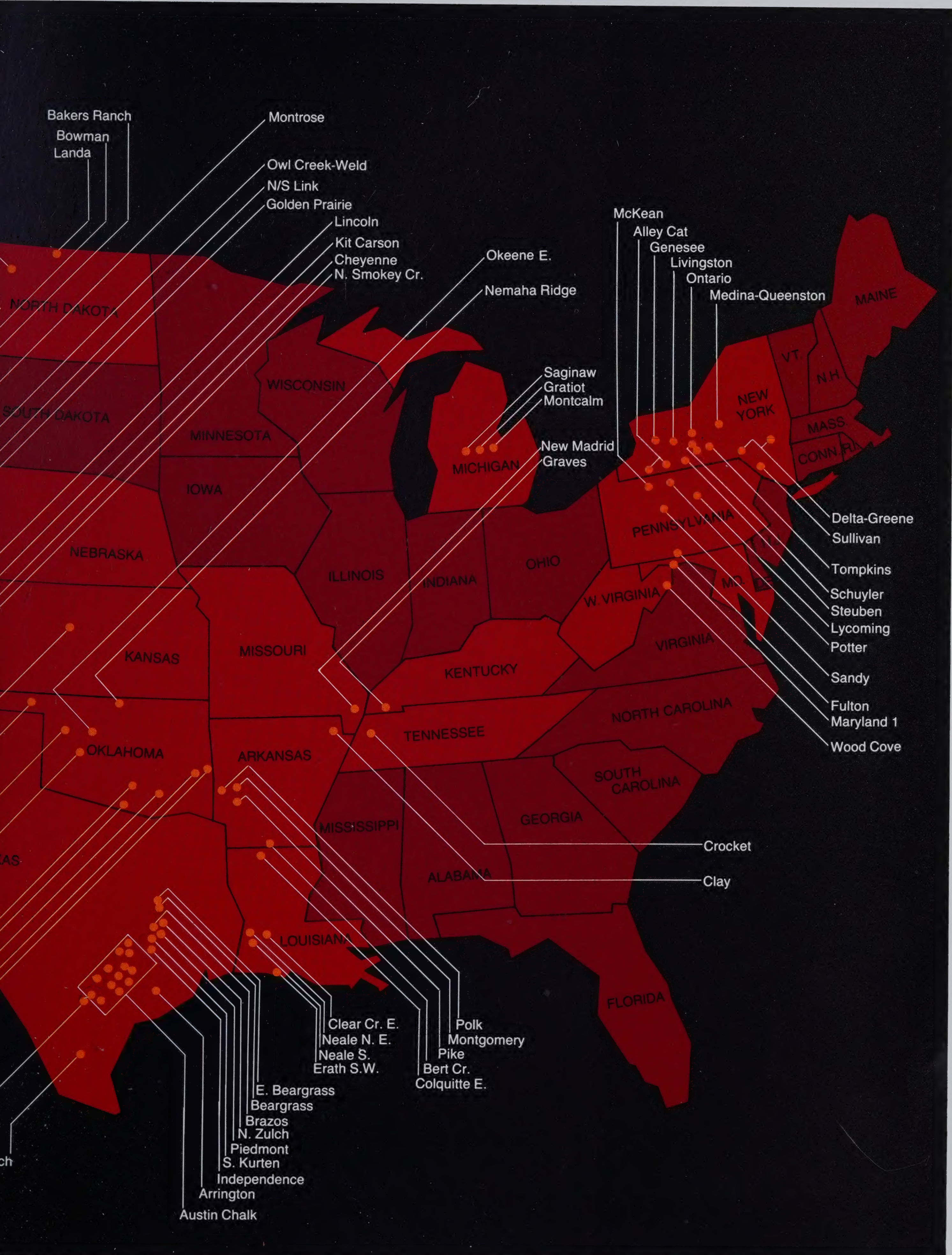
# United States Operations

Bluesky increased its tempo of drilling and acreage acquisition in the United States during fiscal 1981. During this period the Company participated in 99 wells resulting in 53 oil wells and 16 gas wells for a success ratio of 70%. The Austin Chalk play of southcentral Texas remained the focus of the Company's U.S. activities, accounting for 46 of the wells in which the Company participated. Bluesky also participated in oil discoveries in Grant County, Oklahoma; Banner and Kimball Counties, Nebraska and Weston County, Wyoming. At the end of fiscal 1981, Bluesky held 2,155,052 gross acres and 123,009 net acres in the United States.

The Company now has varying interests in 33 producing wells on the Austin Chalk trend. Net production for the year from these wells was 54,224 barrels of oil and 8,197 thousand cubic feet of gas. Bluesky presently holds an interest in 72,237 gross acres on the play on which an anticipated 25 wells will be drilled during fiscal 1982.

In Burleson County, Texas, the Company and its investing partners participated for a 52.8% interest in a six well farmin to earn 1,900 acres. Four of these wells, the Gerland R.#1, Gerdes "A" #1, Kiel "A" #1 and W. Helweg #1, had initial production rates from 93 to 440 barrels of oil per day. The production rate of Chalk wells typically declines during the first weeks of production and these wells are expected to level off at rates of between 50 and 150 barrels of oil per day. Further drilling on this acreage is planned for fiscal 1982. In Gonzales County, Texas, Bluesky and its investing partners participated for a 20% interest in the H. J. Peck #1 well and for a 42.5% interest in the Gescheidle #1 well. Both these wells were placed on production with no reservoir stimulation necessary at initial rates of 243 and 190 barrels of oil per day respectively. In Fayette County, Texas, Bluesky and its investing partners participated for a 25% interest in the Bigley #1 well offsetting the Company's production at Arnim-




Bakers Ranch
Bowman
Landa
Montrose
Owl Creek-Weld
N/S Link
Golden Prairie
Lincoln
Kit Carson
Cheyenne
N. Smokey Cr.
Okeene E.
Nemaha Ridge
McKean
Alley Cat
Genesee
Livingston
Ontario
Medina-Queenston
Saginaw
Gratiot
Montcalm
New Madrid
Graves
Delta-Greene
Sullivan
Tompkins
Schuyler
Steuben
Lycoming
Potter
Sandy
Fulton
Maryland 1
Wood Cove
Crocket
Clay
Clear Cr. E.
Neale N. E.
Neale S.
Erath S.W.
Polk
Montgomery
Pike
Bert Cr.
Colquitte E.
E. Beargrass
Beargrass
Brazos
N. Zulch
Piedmont
S. Kurten
Independence
Arrington
Austin Chalk
NORTH DAKOTA
SOUTH DAKOTA
MINNESOTA
WISCONSIN
MICHIGAN
IOWA
NEBRASKA
ILLINOIS
INDIANA
OHIO
PENNSYLVANIA
NEW YORK
VT.
N.H.
MAINE
MASS.
CONN.
R.I.
W. VIRGINIA
MD.
VIRGINIA
KANSAS
MISSOURI
KENTUCKY
TENNESSEE
NORTH CAROLINA
SOUTH CAROLINA
OKLAHOMA
ARKANSAS
MISSISSIPPI
ALABAMA
GEORGIA
LOUISIANA
FLORIDA

Muldoon. This well, which had initial flow rates in excess of 1,400 barrels of oil per day, has a projected production rate of approximately 200 barrels of oil per day. The M. Willmann #1 well, in which Bluesky and its investing partners have a 15.4% interest, flowed at 5.5 million cubic feet of gas and 364 barrels of condensate per day on test. This well, which is also located in Fayette County, encountered the Chalk at 10,624 feet and is in the deeper gas-condensate productive trend. Bluesky has several additional wells planned for its acreage on this deeper play in the coming year.

In Grant County, Oklahoma, Bluesky participated in a 5,500 foot oil discovery on the west flank of the Nemaha Ridge. The Kretchmar #1-5 well encountered 19 feet of oil pay in two Wilcox sands and 10 feet of oil pay in the Seminole sand. The well flowed oil to surface on a drill stem test from the Wilcox sands and from a separate test over the Seminole sand. It was placed on production at an initial flow rate of 218 barrels of oil per day from the Upper Wilcox. Bluesky plans to drill an immediate offset to this well and two exploratory wells during 1982. Bluesky and its investing partners have a 25% interest in the well and 7,760 acres on this play.

Bluesky participated in three oil discoveries in Banner and Kimball Counties, Nebraska resulting from an exploration drilling program to test the "J" sand over 19,200 acres in the northern portion of the Denver-Julesburg Basin. The Masopust, Palm and Harris wells had initial potentials of 32, 67, and 134 barrels of oil per day respectively. Bluesky and its investing partners have a 12.5% interest in the first two wells and a 37.5% interest in the third well. Offset drilling to these discoveries is scheduled in the coming months.

In the Powder River Basin of Wyoming, Bluesky participated in a successful exploratory well on the Bakers Ranch Prospect. The Baker Federal #3-10 well, in which the Company has a 50% interest, encountered 15 feet of oil bearing Dakota sand at a depth of 6,847 feet and was placed on production at a rate of 68 barrels of oil per day. Two development wells encountered 17 and 23 feet of oil pay in the Dakota sand and are presently being completed. Further development drilling is planned for the near future.

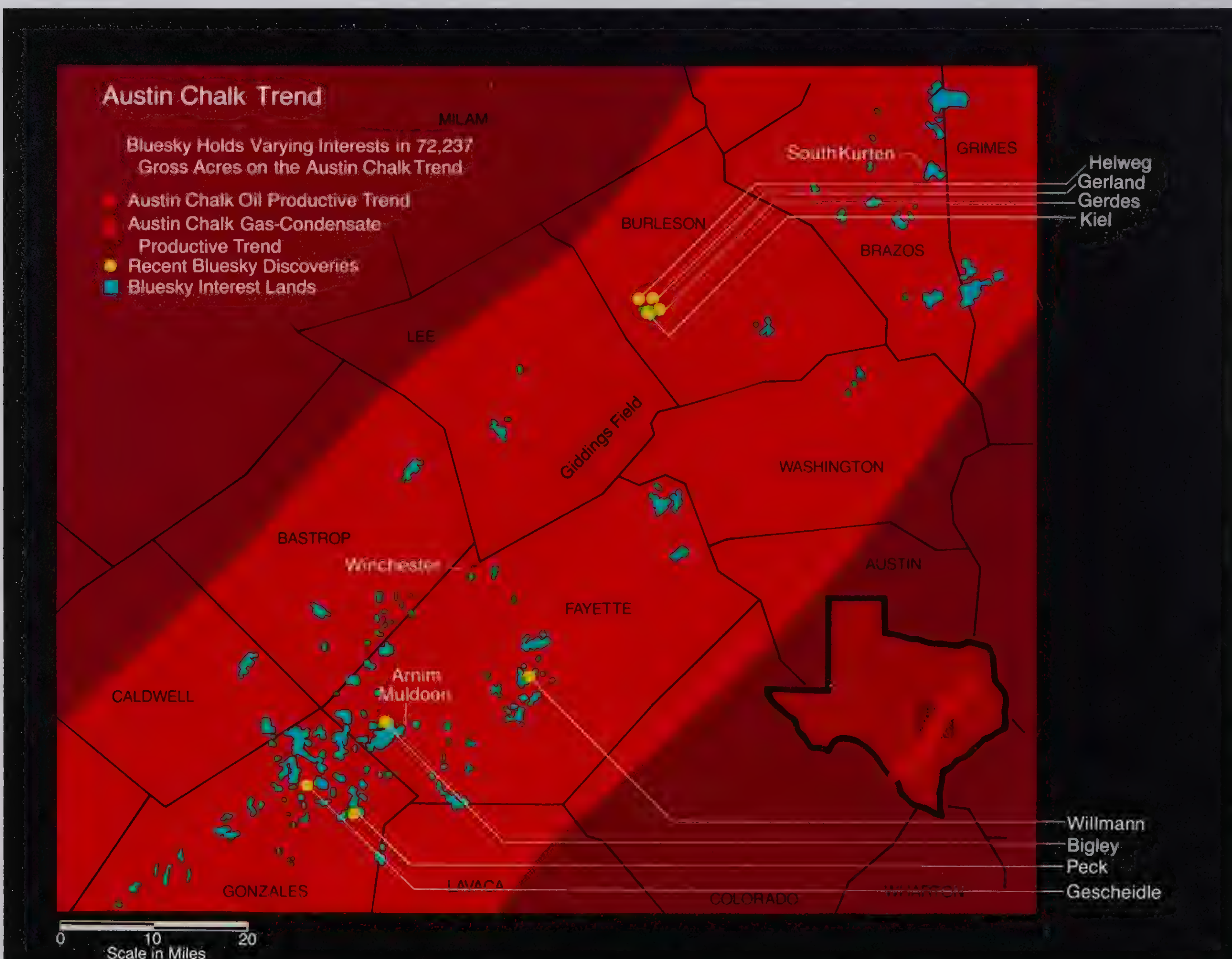
Bluesky is participating in a number of joint ventures in the United States to supplement the Company's own exploration efforts. The 10% interest held by Bluesky and its investing partners in the joint venture with American Hunter Exploration, Ltd. is providing Bluesky with exposure to numerous prospects with large potential reserves throughout the United States. American Hunter holds an interest in approximately 1,600,000 gross acres primarily in the Rocky Mountain Basins, the Great Valley of California, East Texas and the Mid-Continent Region.

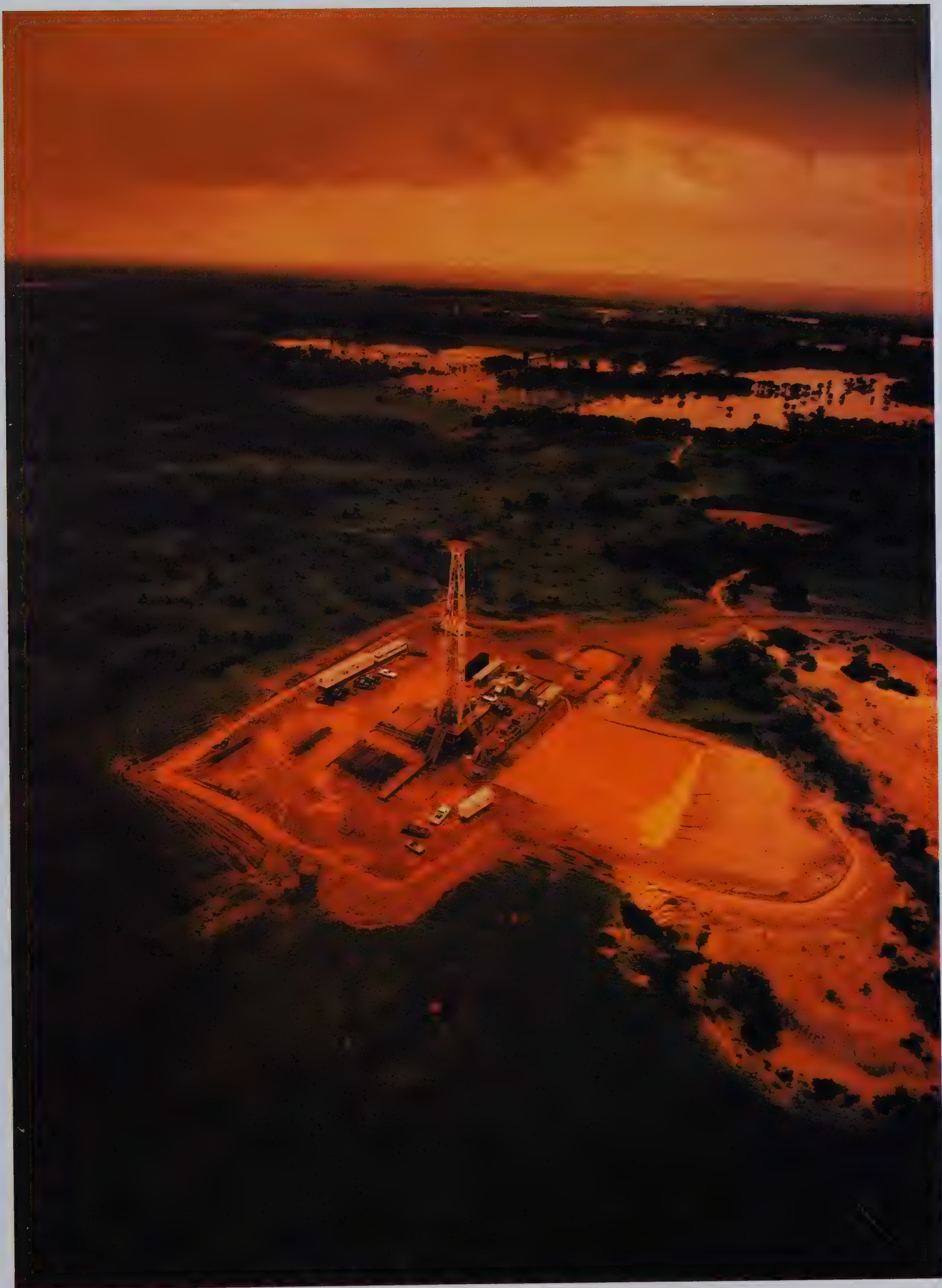

Above and left: Conducting a large sand frac reservoir stimulation of the Austin Chalk Formation on a Bluesky well in Gonzales County, Texas.

American Hunter is continuing to assemble land in key exploration areas and initial drilling on a number of prospects is scheduled to commence later this year.

Through its participation in the joint venture operated by Bowman Development Ltd., Bluesky has acquired a 20% interest in 113,728 acres in New York, Pennsylvania and West Virginia and an additional 70,000 acres is under negotiation. The acreage has been acquired in close proximity to production from shallow Devonian oil bearing sands at depths of less than 1,000 feet and deeper gas bearing Silurian-Medina sands at depths to 3,000 feet. In addition this acreage is prospective for seismically definable Onondaga pinnacle reefs which have tested up to 21 million cubic feet of gas per day in the area with average reserves of 20 billion cubic feet of gas per section. An initial evaluation of the acreage is scheduled to commence later this year with the drilling of ten wells.

Bluesky's joint venture with Coho Resources Inc. has acquired over 187,000 acres primarily in the Michigan Basin and potential areas of Montana, North Dakota, Colorado and Texas. Additional acreage will be acquired in the coming months and seismic operations are scheduled to commence later in the year.





Bluesky operated drilling rig on Company acreage
in Burleson County, Texas.

## Canadian Operations

In Canada, Bluesky participated in a total of 198 wells, resulting in 129 gas wells and 42 oil wells for a success ratio of 86%. Gas production for the year was 1,542 million cubic feet and oil production was 197,932 barrels. The Company's gas reserves increased 40.9 billion cubic feet largely as a result of increased reserves credited to the Elmworth-Deep Basin area of Alberta. Significant gas reserves were established at Bonnie Glen and Garrington in Alberta and in the Sikanni-Trutch region of British Columbia, while important oil wells were drilled by the Company at Utikuma in northcentral Alberta and at Winfield in central Alberta. At fiscal year end the Company held 10,688,410 gross acres and 356,853 net acres in Canada, including a 2% interest in 6,500,000 acres in the Nechako Basin of British Columbia and a 2% to 8% interest in approximately 1,000,000 acres on the Elmworth-Deep Basin play of western Alberta and northeast British Columbia.

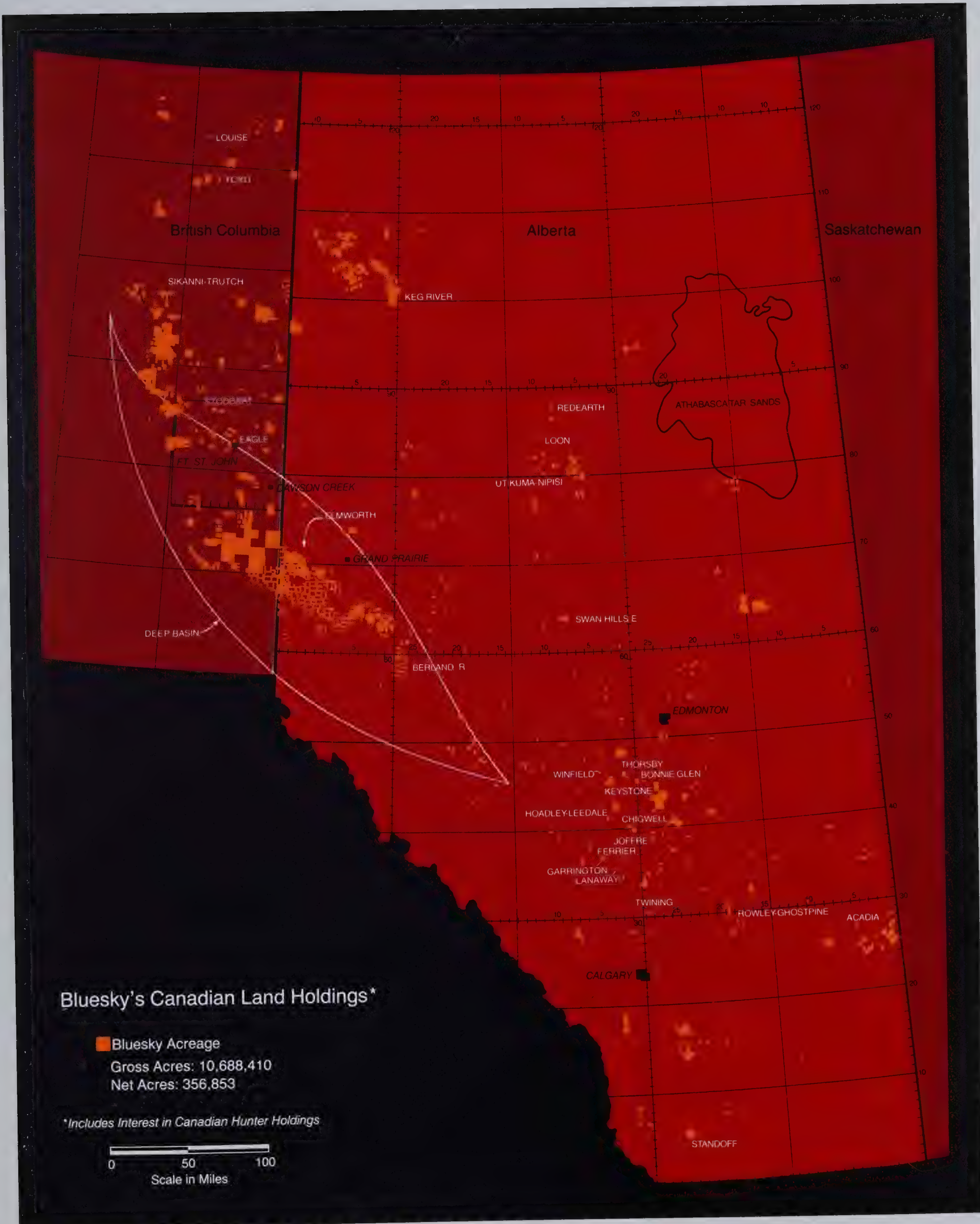
Bluesky has been particularly successful in the Utikuma field of northern Alberta, where the Company now has varying interests in 12 wells. The production allowables for these wells average approximately 110 barrels of oil per day. During fiscal 1981 the Company drilled its most significant well to date in this field. The 8-15-81-9W5 well encountered 29 feet of oil pay in the Keg River formation, tested 239 barrels of oil per day and has primary recoverable oil reserves of 1.2 million barrels. Bluesky and its investing partners hold a 24.5% interest in this well. In addition to the field acreage, Bluesky owns varying interests in approximately 54,000 acres in the general Utikuma area.

At Sikanni-Trutch in northeast British Columbia, the Company drilled or participated in drilling seven wells to evaluate 36,800 acres in which the Company and its investing partners have an average 27% interest. Bluesky now has an interest in 14 gas wells on this acreage with net reserves to the Company estimated at 10.2 billion cubic feet of gas. Further development drilling will be scheduled when a production contract is available.

The Hoadley Glauconitic gas play of westcentral Alberta has attracted considerable attention lately. Bluesky has an average interest of 50% in 3,520 acres on this play where adjacent wells have flowed in excess of 1.5 million cubic feet of gas per day and have averaged 10 billion cubic feet of gas reserves per section. Exploratory drilling on this acreage is planned for fiscal 1982.

Bluesky holds interests averaging approximately 22% in 46,415 gross acres in the Bonnie Glen area of central Alberta. In fiscal 1981 the Company completed two gas wells on this acreage and now has seven gas and two oil wells on the play. Potential reservoirs include the Glauconitic, Viking, Belly River and Basal Quartz formations. Bluesky has been asked to participate in an industrial gas contract of 3 million cubic feet per day from the Bonnie Glen area commencing in early 1982. Pending satisfactory resolution of contract terms, the Company will join in the construction of a gas plant and associated facilities.

At Garrington in southcentral Alberta, Bluesky participated in a significant Lower Cretaceous gas discovery with



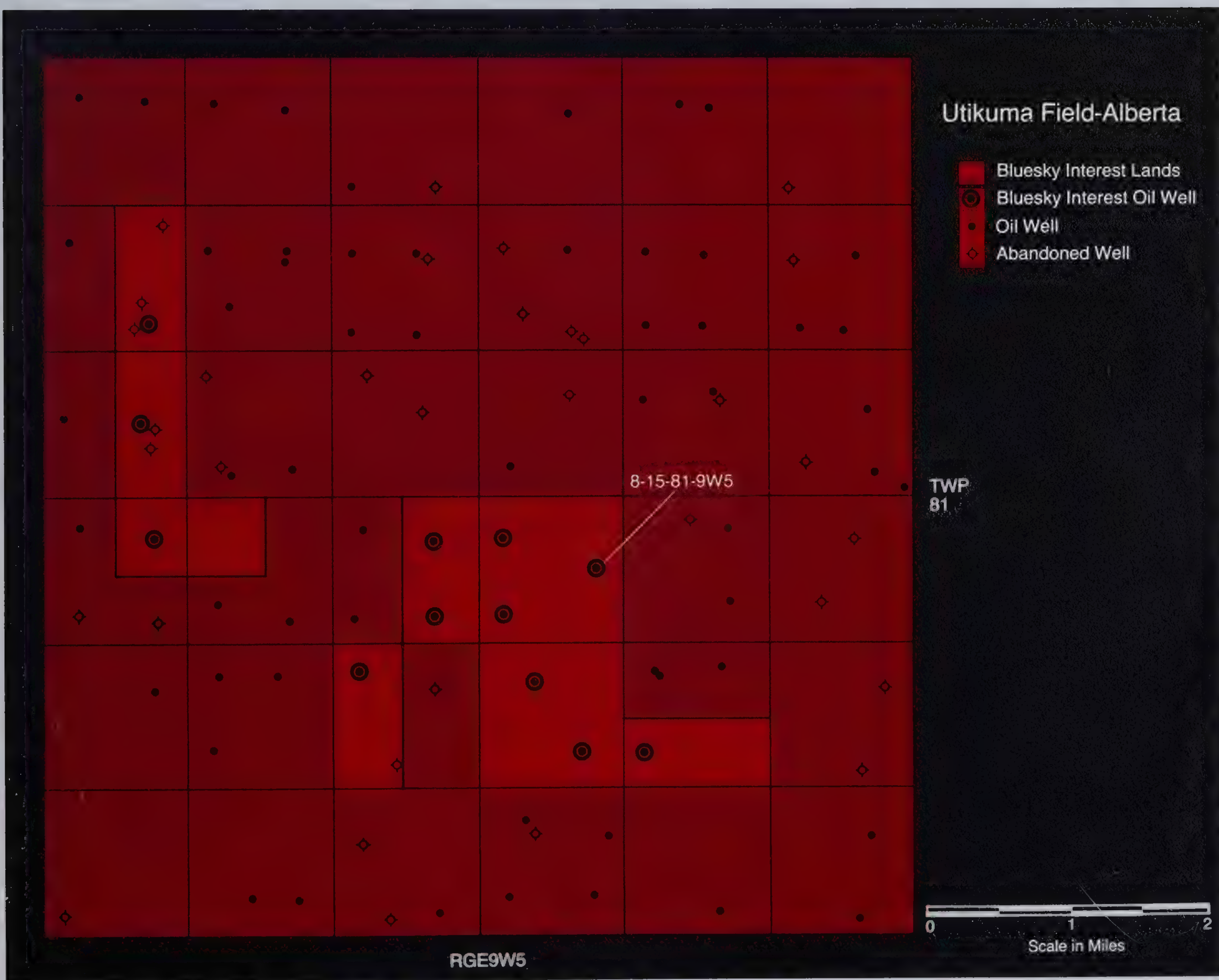
LOUISE
British Columbia
Alberta
Saskatchewan
SIKANNI-TRUTCH
KEG RIVER
EAGLE
FT. ST. JOHN
DAWSON CREEK
ELMWORTH
GRAND PRAIRIE
REDEARTH
LOON
UTIKUMA-NIPISI
ATHABASCA TAR SANDS
SWAN HILLS E
DEEP BASIN
BERLAND R
EDMONTON
THORSBY
BONNIE GLEN
WINFIELD
KEYSTONE
HOADLEY-LEEDALE
CHIGWELL
JOFFRE
FERRIER
GARRINGTON
LANAWAY
TWINING
ROWLEY-GHOSTPINE
ACADIA
CALGARY
STANDOFF
Bluesky's Canadian Land Holdings*
Bluesky Acreage
Gross Acres: 10,688,410
Net Acres: 356,853
*Includes Interest in Canadian Hunter Holdings
0
50
100
Scale in Miles

Drilling operation on Bluesky's Utikuma acreage in northcentral Alberta.

estimated reserves of 15 billion cubic feet per section. The 11-24-37-5W5 well encountered 92 feet of gas-saturated porous sands which flowed in excess of 3 million cubic feet per day without reservoir stimulation. Bluesky and its investing partners have a 37.5% interest in the discovery well and interests ranging from 30-75% in 3,200 acres of adjacent land.

The Company participated for a 12.5% interest in a Viking sand oil discovery at Winfield in central Alberta. The 7-6-46-3W5 well encountered 34 feet of porous reservoir sand with productive capacity in excess of 100 barrels of oil per day. Estimated primary recoverable oil reserves per 160 acres are 380,000 barrels. Step-out drilling on the 7,360 offsetting acres, in which Bluesky holds a 12.5% interest, is scheduled to commence at once. Successful development drilling would permit the implacement of a secondary water flood system which would approximately double the recoverable reserves.

In the Elmworth-Deep Basin area of Alberta and British Columbia the Company participated with Canadian Hunter in 79 wells during fiscal 1981, resulting



in one oil well and 73 gas wells. Of particular significance to Bluesky were the six wells drilled on the Company's higher interest acreage in which Bluesky has a 6.25% to 8.75% interest as compared to the 2% Company interest in all other Canadian Hunter holdings. Typical of these wells was the Demmitt 11-18-66-10W6 well in the Wapiti contract area which tested 21.2 million cubic feet of gas per day from the Cadotte formation and 1.8 million cubic feet of gas per day from the Cadomin formation and has recoverable reserves estimated at 27.1 billion cubic feet of gas from a 640 acre drainage area.

As a result of increased gas reserves recognized by Trans-Canada Pipe Lines Ltd., net production to Bluesky from the Elmworth and Wapiti contract areas of the Deep Basin has increased from 0.92 million cubic feet per day during most of fiscal 1981 to 2.1 million cubic feet per day on April 30, 1981, and will increase to approximately 4 million cubic feet per day by July 31, 1981. This rate will continue to increase in the future as additional established gas reserves are included in the contract reserve base. Bluesky's net gas reserves assigned to the Deep Basin were 58.6 billion cubic feet at the end of fiscal 1981, an increase of 31.6 billion cubic feet from the preceding year.

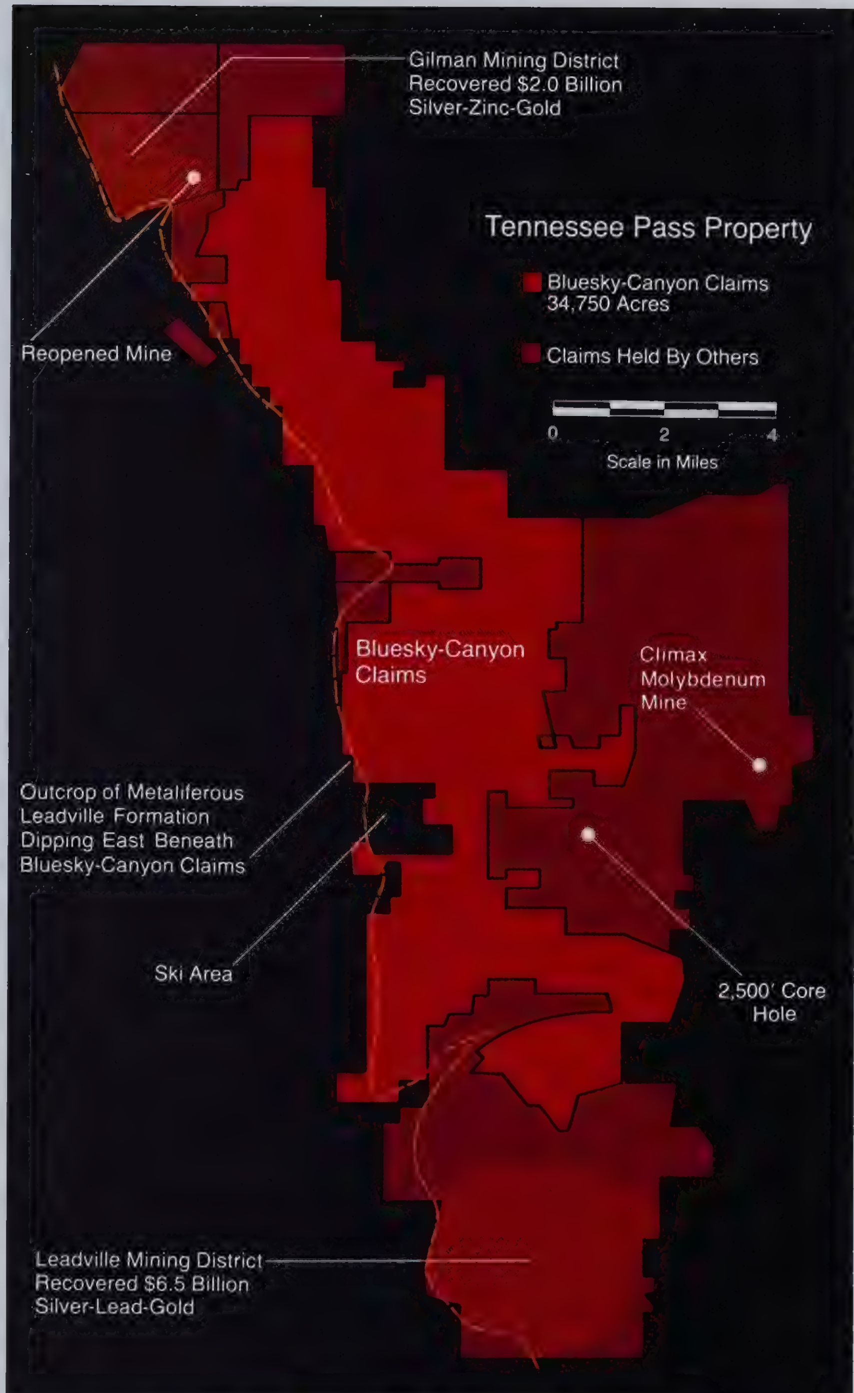
Elmworth gas plant operated by Canadian Hunter Exploration, Ltd.
Throughput in July, 1981, was 220 million cubic feet per day.

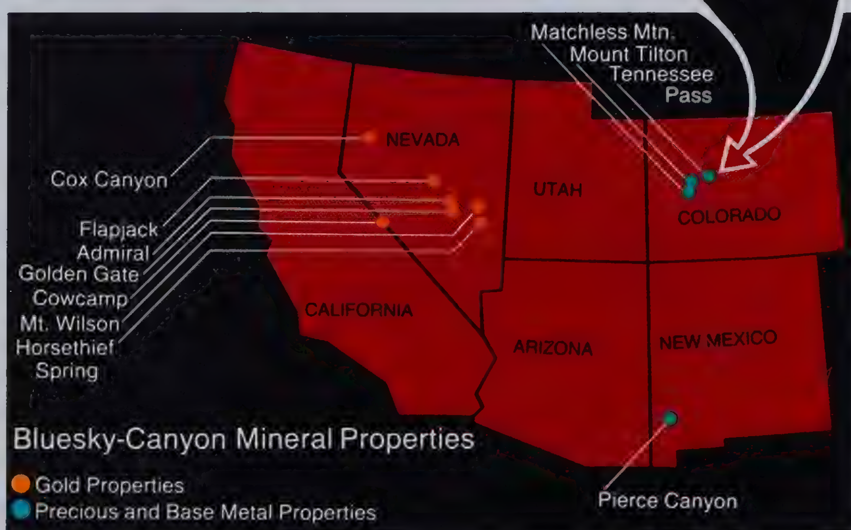
# Mineral Exploration

Bluesky's mineral exploration joint venture with Canyon Resources Corporation has been conducting an aggressive exploration program and acquiring attractive mineral properties in the western United States. Three major projects, Tennessee Pass, Matchless Mountain and Pierce Canyon, are being pursued for high grade combined precious and base metal deposits in carbonate rocks. The most potentially significant of these is the Tennessee Pass project which includes 34,750 acres of mining claims along trend between the major Leadville and Gilman silver-gold-lead-zinc mining districts of Colorado. More than $8 billion of metals (at current prices) have been produced from these districts. Geologic and geophysical surveys on these claims are being conducted by the joint venture to refine anomalies identified during last season's reconnaissance exploration program. Immediately northwest of the Company's claims a competitor is preparing an exploratory mine tunnel to extend a known ore body in the direction of Bluesky's holdings, while another operator is presently drilling a deep (2,500′) exploration test on its land which joins the Company's claims to the east.

In Nevada seven properties have been acquired for their low grade bulk tonnage gold potential, similar to the

Geophysical cable team on Bluesky's Tennessee Pass mineral claims in Colorado.

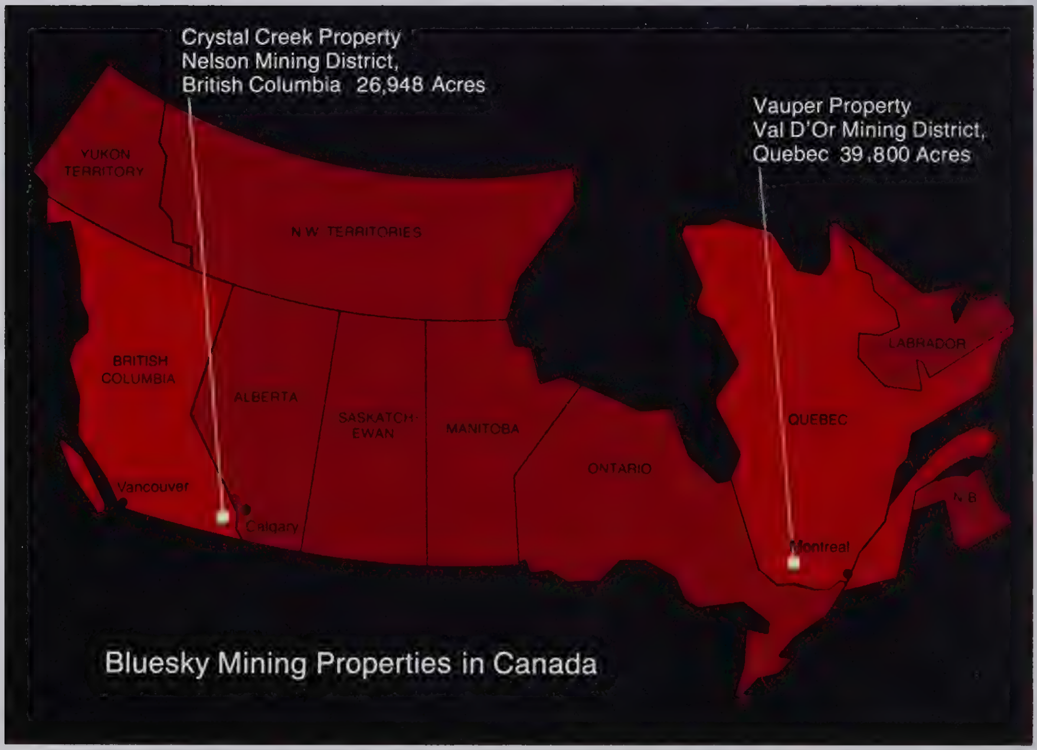


deposit at the Carlin Gold Mine. These properties, ranging in size from 600 acres at Mt. Wilson to 1,780 acres in the Golden Gate Range, are generally in the early stages of exploration. An exception is the 860 acre Horsethief Spring property which contains gold bearing Jasper Beds that appear to warrant immediate drill testing.

In Canada Bluesky is the operator of a detailed geophysical and core hole drilling program on the 39,800 acre Vauper property in the Val D'Or mining district of Quebec. The fifth hole in the $250,000 program encountered ten feet of gold mineralization at a depth of 40 feet. Gold values ranged up to 0.48 ounces per ton over the interval. Follow-up drilling is scheduled for early winter as the mineralized zone may extend beneath a nearby lake and a number of the core holes will be drilled through the ice.

The Company is also operating a silver-lead-zinc exploration program at Crystal Creek in southern British Columbia. An initial $100,000 evaluation of a 26,948 acre claim block is underway to determine the significance of some very encouraging geochemical anomalies and core showings. Bluesky has a 12.5% interest in this venture.



## Consolidated Statement of Income and Retained Earnings

*Bluesky Oil & Gas Ltd.* *For The Year Ended April 30, 1981*

| | 1981 | 1980 (Note 4) |
|---|---|---|
| Revenue | | |
| Geological, geophysical and drilling services | $ 30,881,968 | $26,398,268 |
| Sale of petroleum and natural gas properties | 8,275,061 | 10,300,177 |
| Production derived income, net of royalties | 8,021,135 | 3,433,732 |
| Management fees | 1,915,565 | 1,144,567 |
| Other income | 1,160,001 | 542,169 |
| | 50,253,730 | 41,818,913 |
| Cost of sales | | |
| Geological, geophysical and drilling services | 31,138,499 | 26,379,677 |
| Petroleum and natural gas properties | 8,041,609 | 9,051,879 |
| | 39,180,108 | 35,431,556 |
| | 11,073,622 | 6,387,357 |
| Expenses | | |
| Production | 1,230,970 | 488,255 |
| General and administrative | 1,595,953 | 597,272 |
| Interest | 1,318,386 | 764,065 |
| Dry holes and abandonments | 600,796 | 153,876 |
| Lease carrying costs of exploratory properties | 347,576 | 260,418 |
| Foreign exchange loss | 34,573 | — |
| Depletion and depreciation | 2,395,535 | 1,480,620 |
| | 7,523,789 | 3,744,506 |
| Net income before extraordinary income and income tax | 3,549,833 | 2,642,851 |
| Income tax provision | 1,379,993 | 1,038,041 |
| Net income before extraordinary income | 2,169,840 | 1,604,810 |
| Extraordinary Income | | |
| Gain on sale of securities, net of $2,495,461 deferred tax | 5,449,015 | 529,539 |
| Income tax recovery applicable to prior years loss | — | 161,636 |
| | 5,449,015 | 691,175 |
| Net income | 7,618,855 | 2,295,985 |
| Retained earnings, beginning of period | 5,160,454 | 4,004,955 |
| Issuance costs on sale of preferred shares | — | (642,377) |
| Preferred share dividends - Series A | (488,375) | (498,109) |
| Retained earnings, end of period | $ 12,290,934 | $ 5,160,454 |

*The accompanying notes form an integral part of this statement.*

## Consolidated Balance Sheet

*Bluesky Oil & Gas Ltd.* — *As At April 30, 1981*

| ASSETS | 1981 | 1980 (Note 4) |
|---|---|---|
| Current | | |
| Cash in bank | $ 238,366 | $ 317,633 |
| Accounts receivable, trade | 45,072,238 | 25,181,783 |
| Income tax refund receivable | 254,718 | 158,630 |
| Marketable securities, at cost (market value $21,000; 1980, $1,875,000) | 37,500 | 184,275 |
| Inventories (Note 2) | 21,098,905 | 11,874,019 |
| Current portion of loans receivable | 2,880,823 | 3,130,909 |
| Prepaid expenses | 488,002 | 104,683 |
| Agreement receivable | 165,000 | 415,000 |
| | 70,235,552 | 41,366,932 |
| Property and equipment, at cost | | |
| Petroleum and natural gas properties including well development expenditures | 90,914,949 | 84,510,683 |
| Plant and equipment (Note 11) | 17,201,323 | 11,319,286 |
| Mining properties, at nominal cost | — | 8 |
| | 108,116,272 | 95,829,977 |
| Less accumulated depreciation and depletion | 5,147,375 | 2,755,621 |
| | 102,968,897 | 93,074,356 |
| Loans receivable on sale of petroleum and natural gas properties | 126,060,610 | 112,503,366 |
| Less deferred net income thereon | 126,060,610 | 112,503,366 |
| | — | — |
| Other assets | | |
| Other loans receivable | 252,703 | 288,803 |
| Notes receivable (Note 5) | 8,166,988 | 1,506,250 |
| Investment in shares, at cost (Note 10) | 6,241,584 | 709,514 |
| Deferred exchange loss | — | 37,910 |
| | 14,661,275 | 2,542,477 |
| | $187,865,724 | $136,983,765 |

| LIABILITIES | 1981 | 1980 (Note 4) |
|---|---|---|
| Current | | |
| Bank loan (Note 7) | $ — | $ 14,265,940 |
| Accounts payable and accruals | 20,110,531 | 9,523,131 |
| Deposit on future services | 5,486,975 | 5,101,962 |
| Deferred drilling, geological and management fee income | 4,526,296 | 7,578,647 |
| Deferred income on sale of petroleum and natural gas properties | 4,465,500 | 5,026,426 |
| Deferred take-or pay income | 423,625 | — |
| Deferred exchange gain | 23,130 | — |
| Notes payable | 36,129 | 210,000 |
| | 35,072,186 | 41,706,106 |
| Deferred income taxes | 9,631,894 | 5,645,791 |
| Gas production prepayment (Note 3) | — | 50,354 |
| Long term debt (Note 7) | 36,945,400 | 630,000 |
| | 81,649,480 | 48,032,251 |
| SHAREHOLDERS' EQUITY | | |
| Share capital (Note 5) | | |
| Common | | |
| Authorized | | |
| 25,000,000 shares without par value | | |
| Issued and outstanding | | |
| 18,516,566 shares | 80,498,730 | 76,291,100 |
| Preferred | | |
| Authorized | | |
| 3,000,000 shares with a par value of $5.00 each | | |
| Issued and outstanding | | |
| 1,249,324 7% Series A cumulative redeemable convertible shares | 6,246,620 | 7,500,000 |
| 660,000 6% Series B cumulative redeemable convertible shares | 3,300,000 | — |
| Contributed surplus | 3,880,000 | — |
| Retained earnings | 12,290,934 | 5,160,454 |
| Cost of shares held by its subsidiary (Note 6) | (40) | (40) |
| | 106,216,244 | 88,951,514 |
| | $187,865,724 | $136,983,765 |

*On Behalf Of The Board*

*Director*

*Director*

*The accompanying notes form an integral part of this statement.*

# Consolidated Statement of Changes in Financial Position

*Bluesky Oil & Gas Ltd.* *For The Year Ended April 30, 1981*

| | 1981 | 1980 (Note 4) |
|---|---|---|
| Financial resources were provided by | | |
| Operations | | |
| Net income before extraordinary income | $ 2,169,840 | $ 1,604,810 |
| Add non-cash items | | |
| Depletion and depreciation | 2,395,535 | 1,480,620 |
| Deferred income tax | 1,490,642 | 1,133,733 |
| Other | (3,781) | 2,038 |
| | 6,052,236 | 4,221,201 |
| Gain on sale of securities | 7,944,476 | 794,192 |
| (Increase) in loans receivable | (13,557,244) | (16,677,369) |
| Increase in deferred net income thereon | 13,557,244 | 16,680,116 |
| | — | 2,747 |
| Proceeds on sale of fixed assets | — | 200,000 |
| Decrease in other loans receivable | 36,102 | 34,943 |
| Decrease in notes receivable | 519,262 | — |
| Decrease (increase) in deferred exchange loss | 37,910 | (62,846) |
| Proceeds on issue of shares | | |
| Common | 4,207,630 | 1,769,697 |
| Series A preferred | (1,253,380) | 7,500,000 |
| Series B preferred | 7,180,000 | — |
| | 10,134,250 | 9,269,697 |
| Less - notes applicable to common shares | — | (1,506,250) |
| - issuance costs applicable to Series A | — | (642,377) |
| - notes applicable to Series B | (7,180,000) | — |
| | 2,954,250 | 7,121,070 |
| Increase in long term debt | 36,945,400 | — |
| | 54,489,636 | 12,311,307 |
| Financial resources were used for | | |
| Purchase of property and equipment | | |
| Petroleum and natural gas properties | 6,404,258 | 2,259,408 |
| Plant and equipment | 5,882,037 | 2,375,065 |
| | 12,286,295 | 4,634,473 |
| Increase in investment in shares (Note 10) | 5,532,072 | 696,666 |
| Less notes payable thereon | — | (630,000) |
| | 5,532,072 | 66,666 |
| Acquisition of Focus Resources Ltd. | — | 4,967,528 |
| Reduction of gas production prepayment | 50,354 | 51,723 |
| Reduction of long term debt | 630,000 | 3,382,100 |
| Preferred share dividends | 488,375 | 498,109 |
| | 18,987,096 | 13 ,600,599 |
| Increase (decrease) in working capital | 35,502,540 | (1,289,292) |
| Working capital (deficiency), beginning of period | (339,174) | 950,118 |
| Working capital (deficiency), end of period | $35,163,366 | $ (399,174) |

*The accompanying notes form an integral part of this statement.*

# Notes to Consolidated Financial Statements



## 1. *Significant accounting policies*

*Basis of consolidation*

The consolidated financial statements have been prepared based on the April 30, 1981 financial statements of the Company and its wholly-owned subsidiary Bluesky Oil & Gas Inc.

*Translation of foreign subsidiary accounts*

The accounts of the Company's wholly-owned subsidiary Bluesky Oil & Gas Inc. have been translated to Canadian dollars on the following basis:

| Classification | Rate of exchange |
|---|---|
| a) Current assets and liabilities | — rates in effect at balance sheet date |
| b) Loans receivable and deferred income thereon | — rates in effect at balance sheet date |
| c) Other non-current assets and liabilities | — historic rates in effect when incurred |
| d) Revenue and expense accounts | — average rate in effect throughout the year |

Unearned exchange gains are deferred until earned, at which time they are recorded in income.

*Sale of interest in petroleum and natural gas properties*

The Company has sold its interest in various petroleum and natural gas properties pursuant to a number of drilling program agreements. Under the terms of the agreements, the amounts receivable by the Company are due in annual installments over a period of 30 years commencing in 1978, 1979, 1981 and 1982. Because of the extended period over which these amounts are due, the Company intends to recognize income from the sale of its interests in these petroleum and natural gas properties in the year in which payments are received.

Under the various drilling program agreements, the Company earns an income calculated as the amount by which from 18% to 40% of the annual net production revenue to the purchaser from each petroleum and natural gas well, sold under the agreements, exceeds the loan principal payable during the year for each well; such income to be payable with commencement of production of each well.

*Costs of interests in petroleum and natural gas properties*

All costs related to the acquisition of interests in undeveloped petroleum and natural gas properties and mining properties are carried in inventory as these properties will be sold pursuant to the drilling program agreements after they have been evaluated by management.

All costs related to the acquisition of interests in productive petroleum and natural gas properties are capitalized. A proportionate share of such costs is included in the determination of any gain or loss when fractional interests are sold.

Costs of interests in petroleum and natural gas properties on which successful wells are drilled are amortized on the unit-of-production method based on estimated recoverable reserves of petroleum and natural gas as determined by the Company and its consulting engineers.

Costs of interests in petroleum and natural gas properties on which dry holes are drilled are charged to income.

*Depreciation*

Depreciation of plant and equipment is provided at rates considered to be sufficient to amortize the costs of these assets over their estimated useful life.

*Deferred drilling, geological and management fee income*

The Company follows the completed-well method of accounting for drilling and geological income and costs, pursuant to the various drilling program agreements. Under this method the income and costs thereon of each well are deferred until the well is completed and all costs pertaining thereto have been approved and recorded, at which time they are taken into income. Management fee income is deferred until the well is spudded, at which time it is taken into income.

*Income taxes*

The Company follows the tax allocation method of accounting for income taxes. Under this method, the Company provides for deferred income taxes to the extent that income taxes otherwise payable are deferred by claiming capital cost allowance and expensing exploration and development costs, for tax purposes, in excess of the depreciation and depletion provisions reflected in the financial statements.

## 2. *Inventories, at lower of cost or net realizable value*

| | April 30 1981 | April 30 1980 |
|---|---|---|
| Petroleum and natural gas properties | $16,173,948 | $11,553,334 |
| Mining properties | 882,665 | — |
| Oilfield supplies | 4,042,292 | 320,685 |
| | $21,098,905 | $11,874,019 |

## 3. *Gas production prepayment*

A gas pipe line company has contracted to purchase the Company's gas production from its interest in certain areas of Oklahoma and, as part of the arrangement, has made advances to assist the Company in financing the development of the gas reserves. Repayment is proportionate to gas sales until 1981, at which time the balance outstanding becomes payable. A bank letter of credit for $32,500 has been issued by the Company as security for this loan.

*4. Comparative figures*

Comparative figures are for the year ended April 30, 1980 and include the accounts of the Company's wholly-owned subsidiary Bluesky Oil & Gas Inc. and have been reclassified to agree with the current year's presentation.

*5. Share capital*

A. Common shares

(a) During the year, the Company issued the following common shares:

| | |
|---|---|
| Employee share purchase shares cancelled | (54,283) |
| On conversion of 250,676 Series A preferred shares | 250,676 |
| For cash — per note 5 (e) | 303,000 |
| Balance issued, April 30, 1980 | 18,017,173 |
| Balance issued, April 30, 1981 | 18,516,566 |

(b) Employee Share Purchase Plan

| | |
|---|---|
| Shares reserved under the Employee Share Purchase Plan as at April 30, 1981 | 91,500 |

Under the Employee Share Purchase Plan, the Company has agreed to advance funds to a Trustee to be used by the Trustee for the purchase and immediate resale to employees, under interest free notes, due July 31, 1984, of the Company's common shares. The price of the common shares issued under the Plan is the average sale price of the Company's shares on the day following the transaction. As at April 30, 1981, $986,988 was receivable by the Company ($1,506,250 at April 30, 1980) under the Plan and is included in "other assets".

(c) Employee Stock Option Plan

| | |
|---|---|
| Options were granted during the year at prices ranging from $10.00 to $10.625 | 84,000 |
| Options were cancelled during the year at prices ranging from $9.00 to $10.00 | (65,000) |
| Net granted during the year | 19,000 |
| Balance outstanding, April 30, 1980 | 63,000 |
| Balance outstanding, April 30, 1981 | 82,000 |
| Shares reserved under the Employee Stock Option Plan as at April 30, 1981 | 218,000 |

The above options expire five years from the date of issue.

(d) Directors Stock Option Plan

| | |
|---|---|
| Options were cancelled during the year at a price of $10.00 each | (180,000) |
| Balance outstanding, April 30, 1980 | 180,000 |
| Balance outstanding, April 30, 1981 | NIL |
| Shares reserved under the Directors Stock Option Plan as at April 30, 1981 | NIL |

The directors agreed to surrender their options unexercised to the Company upon the Company's shares being listed for trading on the Toronto Stock Exchange on December 16, 1980.

(e) On February 20, 1980, the Company and its German Drilling Fund Partner entered into an agreement, subject to regulatory approval, wherein the Drilling Fund Partner would agree to make available an additional $30,000,000 in exploration funds over two years in exchange for the Company agreeing to issue 500,000 common shares at $9.75 per share to a Trustee for the benefit of German Limited partners committing such funds. Regulatory approval has been received and as of April 30, 1981, 303,000 shares were issued under this agreement.

B. Series A 7% cumulative, redeemable, convertible preferred shares

(a) During the year the Company converted the following Series A preferred shares

| | |
|---|---|
| to common shares | (250,676) |
| Balance issued, April 30, 1980 | 1,500,000 |
| Balance issued, April 30, 1981 | 1,249,324 |

(b) The Series A preferred shares have the following conditions:

(1) Convertible at any time on the basis of one Series A preferred for one common share.

(2) Redeemable by the Company after March 30, 1982 at $5.00 per share. All Series A preferred shares outstanding on September 30, 1984 shall be redeemed by the Company at $5.00 per share.

C. Series B 6% cumulative, redeemable, convertible preferred shares

(a) On June 11, 1980, the Company entered into an agreement with a senior officer to sell to the officer 500,000 Series B preferred shares at a price of $11.00 per share. The Company has loaned the officer $5,500,000 to purchase the shares and repayment of the loan shall be made within five years with interest payable on the amount outstanding at the rate of 6% per annum. All shares will be held by a Trustee until payment has been received. The officer has the right to repay 1/5th of the loan and receive 1/5th of the shares each year for five years.

(b) On July 1, 1980, the Company entered into agreements with five senior executives of the Company to sell to the executives 160,000 Series B preferred shares at a price of $10.50 per share. The Company has loaned the executives $1,680,000 to purchase the shares and repayment of the loan shall be made within five years with interest payable on the amount outstanding at the rate of 6% per annum. All shares will be held by a Trustee until payment has been received. The executives have the right to repay 1/5th of the loan and receive 1/5th of the shares each year for five years.

(c) During the year the Company issued the following Series B preferred shares:

| | |
|---|---|
| Under C. (a) above . . . . . . . . . . . . | 500,000 |
| Under C. (b) above . . . . . . . . . . . . | 160,000 |
| Balance issued April 30, 1981 . . . . . | 660,000 |

As at April 30, 1981, $7,180,000 was receivable by the Company under (a) and (b) above and is included in "other assets".

(d) The Series B preferred shares have the following conditions:

(1) Convertible at any time on the basis of one Series B preferred for one common share.

(2) Redeemable at the issue price per share at any time prior to July 31, 1985 by mutual agreement between the Company and the executives and any shares not converted to common by July 31, 1985 must be redeemed by the Company at the issue price per share.

### *6. Cost of shares held by its subsidiary*

As at April 30, 1981, the Company's wholly-owned subsidiary, Bluesky Oil & Gas Inc., owned 3,524,800 shares of the Company's common shares which represents 19.04% of the common shares then outstanding. Under an Agreement dated October 11, 1979, the Company has granted an option to a Director to purchase 48,000 of the shares then owned by the subsidiary at a price of $5.00 per share. Under the Agreement, the Director may elect to purchase 25% of the shares each year commencing October 1, 1979 of which 12,000 have been exercised.

### *7. Long term debt*

During the period the Company arranged a new bank line of credit of $50,000,000 with interest at the bank prime rate. The bank line is secured by a debenture with a floating charge on the assets of the Company. The bank line may be utilized by the Company at any time up to November 1, 1982 and the Company has the option to convert the outstanding balance to a five year term loan with interest at bank prime rate plus 1/2%.

In accordance with the terms of the loan agreement, the April 30, 1981 loan balance of $36,945,400 has been classified as a long-term debt.

### *8. Net earnings per common share*

| | April 30 1981 | April 30 1980 |
|---|---|---|
| (a) Basic | | |
| Before extraordinary income | 11.5¢ | 8.9¢ |
| Net income | 48.6¢ | 14.5¢ |
| (b) Fully diluted | | |
| Before extraordinary income | — | — |
| Net income | 46.5¢ | — |

Net earnings per common share calculations excluded shares owned by the company's wholly-owned subsidiary and are based on the monthly weighted average number of common shares outstanding after dividend requirements on the Series A and Series B preferred shares.

Where the conversion of the series A and Series B preferred shares and the options referred to in Note 5 are non-dilutive, the fully diluted earnings have not been presented.

### *9. Remuneration of directors and senior officers*

Remuneration paid to directors amounted to $2,500 and to senior officers (including the five highest paid employees) of the Company amounted to $561,398.

### *10. Investment in shares, at cost*

During the year the Company exchanged its investment in common shares of a private company with a cost of $696,666, for 346,041 7½% cumulative convertible redeemable preferred shares with a par value of $18.00. The exchange was made pursuant to section 85.1 of the Income Tax Act (Canada). The preferred shares are redeemable at $18.00 by the issuing company only if the common shares of the issuing company have traded on a recognized Canadian stock exchange for a period of ninety consecutive days at a price per share of not less than the redemption price. All preferred shares remaining outstanding as at December 30, 1985 must be redeemed at $18.00 each by the issuing company.

*11. Plant and equipment*

| | April 30, 1981 | | | April 30, 1980 |
|---|---|---|---|---|
| | Cost | Accumulated Depreciation | Net Book Value | Net Book Value |
| Production equipment | $10,372,971 | $1,320,166 | $ 9,052,805 | $ 6,499,264 |
| Plant and gathering equipment | 5,563,307 | 955,195 | 4,608,112 | 3,587,560 |
| Office equipment | 1,265,045 | 64,381 | 1,200,664 | — |
| | $17,201,323 | $2,339,742 | $14,861,581 | $10,086,824 |

*12. Segmented information*

In view of the different economic environment under which the oil and gas industry operates in Canada and the United States, segmented information is presented on a geographical basis separating the company's operations between Canada and the United States.

| | (Thousands of Dollars) | | | | | |
|---|---|---|---|---|---|---|
| | 1981 | | | 1980 | | |
| | Canada | United States | Total | Canada | United States | Total |
| Gross Revenue | $31,046 | $19,208 | $50,254 | $38,773 | $3,046 | $41,819 |
| Cost of Sales | 24,086 | 15,094 | 39,180 | 33,489 | 1,942 | 35,431 |
| Expenses Depletion and depreciation | 1,735 | 660 | 2,395 | 1,076 | 405 | 1,481 |
| Other | 2,644 | 2,485 | 5,129 | 1,844 | 420 | 2,264 |
| | 4,379 | 3,145 | 7,524 | 2,920 | 825 | 3,745 |
| Net income before extraordinary income and income tax | 2,581 | 969 | 3,550 | 2,364 | 279 | 2,643 |
| Income tax | 1,374 | 6 | 1,380 | 1,024 | 14 | 1,038 |
| | 1,207 | 963 | 2,170 | 1,340 | 265 | 1,605 |
| Extraordinary Income | 5,449 | — | 5,449 | 529 | 162 | 691 |
| Net Income | $ 6,656 | $ 963 | $ 7,619 | $ 1,869 | $ 427 | $ 2,296 |

*13. Subsequent events*

(a) Employee stock options

Subsequent to April 30, 1981 the Company has granted options to employees to purchase 82,000 common shares at a price of $10.00 each which expire five years from the date of issue. Options covering 30,000 shares at prices ranging from $10.00 to $12.625 were cancelled subsequent to April 30, 1981.

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## Auditors' Report

To the Shareholders,

We have examined the consolidated balance sheet of Bluesky Oil & Gas Ltd. as of April 30, 1981 and the consolidated statements of income and retained earnings and of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the Company as at April 30, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

DELOITTE, HASKINS & SELLS
Chartered Accountants

Calgary, Alberta
August 6, 1981

# Corporate Information

## Directors

Klaus Hebben,
Munich, West Germany

Robert J. Leslie,
Houston, Texas

John A. Masters
Calgary, Alberta

Ronald W. Springer
Calgary, Alberta

Robert A. Wisener,
Calgary, Alberta

## Officers

Robert J. Leslie, President
& Chief Executive Officer

Daryl H. Connolly,
Vice President,
Corporate Development

Arthur C. Eastly,
Vice President, Production

Clifford A. Rae,
Secretary

Ronald W. Springer,
Vice President, Finance

Wayne S. Tait,
Vice President, Land

## Offices

Bluesky Oil & Gas Ltd.
333-5th Avenue S. W. #700
Calgary, Alberta T2P 3B6

Bluesky Oil & Gas Inc.
1010 Lamar #400
Houston, Texas 77002

Bluesky Oil & Gas Inc.
#700 Dome Tower, 1625 Broadway
Denver, Colorado 80202

## Wholly Owned Subsidiary

Bluesky Oil & Gas Inc.

## Legal Counsel

Macleod Dixon
#1500 Home Oil Tower
324-8th Avenue S.W.
Calgary, Alberta T2P 2Z2

## Auditors

Deloitte Haskins & Sells
255-5th Avenue S.W., #2300
Bow Valley Square III
Calgary, Alberta T2P 3G6

## Registrar & Transfer Agents

The Canada Trust Company
505-3rd Street S.W.
Calgary, Alberta T2P 3E6

## Exchange Listings

The Toronto Stock Exchange
Trading Symbol: BKYT

NASDAQ System
Trading Symbol: BLUSF

The Vancouver Stock Exchange
Trading Symbol: BKYV

Design: Graphic Designer's Group/Houston

BlueSky Oil & Gas Ltd.

Bluesky Oil & Gas Ltd.
333-5th Avenue S. W. #700
Calgary, Alberta T2P 3B6

Bluesky Oil & Gas Inc.
1010 Lamar #400
Houston, Texas 77002

Bluesky Oil & Gas Inc.
#700 Dome Tower, 1625 Broadway
Denver, Colorado 80202